AR61

1998 ANNUAL REPORT

(steady growth)

+

(high impact)

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(strategy)

BXL
ENERGY LTD.

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300%

STRATEGY

BXL's goal is to build a substantially larger portfolio of high quality oil and natural gas assets with low finding costs. Our strategy is two-fold: first, invest in projects that provide **steady growth** at measurable risk, and second, invest in higher risk, **high impact** prospects that have the potential to dramatically increase BXL's reserves.

75%

STEADY GROWTH

Most of BXL's capital expenditure program is directed to projects that have a high probability of adding quality production and reserves at reasonable cost. These projects form the basis of a property portfolio that generates high netbacks, is opportunity rich and can be efficiently managed. Each project, like a member of a **rowing team**, plays an important role in advancing BXL on its course.

25%

HIGH IMPACT

BXL's prospect inventory always includes a high impact opportunity which has the potential for large quantities of reserves at exceptionally low cost. These prospects are typically higher risk, take longer to develop and are in a new area. Very often, the prospect is tested by drilling an exploratory well, often referred to as a **wildcat** well.

ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

The annual and special meeting of shareholders of BXL Energy Ltd. will be held on Thursday, May 13, 1999 at 3:00 p.m. in the Viking Room of The Calgary Petroleum Club at 319 - 5th Avenue S.W., Calgary, Alberta.

HIGHLIGHTS

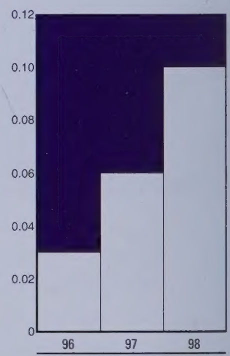
	1998	1997	% Change
OPERATING			
PRODUCTION			
Oil and NGLs *(bbls per day)*	**380**	151	152
Natural gas *(mcf per day)*	**3,591**	2,404	49
Barrels of oil equivalent *(boe per day)*	**739**	391	89
AVERAGE SELLING PRICES			
Oil and NGLs *($ per bbl)*	**18.09**	26.14	(31)
Natural gas *($ per mcf)*	**1.95**	1.73	13
OPERATING NETBACKS			
Oil and NGLs *($ per bbl)*	**12.46**	16.11	(23)
Natural gas *($ per mcf)*	**0.98**	0.82	20
Barrels of oil equivalent *($ per boe)*	**11.19**	11.26	(1)
RESERVES			
Proven			
Oil and NGLs *(mbbls)*	**592**	517	15
Natural gas *(mmcf)*	**8,236**	8,364	(1)
Barrels of oil equivalent *(mboe)*	**1,416**	1,354	5
Proven and probable			
Oil and NGLs *(mbbls)*	**985**	717	37
Natural gas *(mmcf)*	**14,462**	14,754	(2)
Barrels of oil equivalent *(mboe)*	**2,432**	2,193	11
WELLS DRILLED			
Gross	**10**	13	(23)
Net	**2.6**	4.5	(42)
UNDEVELOPED LANDS *(acres)*			
Gross	**50,800**	55,500	(8)
Net	**18,100**	12,300	47
FINANCIAL *($ thousand except per share amounts)*			
Oil and gas sales	**5,069**	2,963	71
Cash flow from continuing operations	**2,091**	1,020	105
Per share *(basic)*	**0.10**	0.06	67
Loss from continuing operations	**(129)**	(173)	25
Per share *(basic)*	**(0.01)**	(0.01)	-
Cash flow after discontinued operations	**3,286**	1,133	190
Per share *(basic)*	**0.16**	0.06	167
Net earnings *(loss)*	**652**	(111)	687
Per share *(basic)*	**0.03**	(0.01)	400
Capital expenditures	**4,026**	6,047	(33)
Total assets	**12,532**	11,133	13
Working capital *(deficiency)*	**31**	(810)	104
Total long term debt	**3,549**	3,230	10
Shareholders' equity	**6,796**	5,493	24
SHARE DATA			
NUMBER *(thousands)*			
Weighted average outstanding	**20,070**	17,481	15
Outstanding at year end	**22,474**	19,895	13
Fully diluted at year end	**25,449**	22,760	12
TRADING PRICE *($ per share)*			
High	**0.60**	0.70	(14)
Low	**0.38**	0.46	(17)
Close	**0.40**	0.55	(27)
SHARES TRADED *(thousands)*	**3,484**	3,451	1

LETTER TO SHAREHOLDERS

THE MANAGEMENT AND STAFF OF BXL ENERGY LTD. ARE PROUD OF OUR 1998 OPERATING RESULTS. WE ADHERED TO OUR STRATEGY OF FOCUSING ON WELL DEFINED CORE AREAS, WHERE WE COULD MAINTAIN A BALANCE OF high quality oil and natural gas products. As a result, BXL exited our industry's most difficult year in the last decade with a strong balance sheet and nearly double the production of the preceding year. Concurrently, the sale of the natural gas management contracts business turned BXL into a pure oil and natural gas production company with operating results that are directly comparable to our peers.

GROWTH STRATEGY

Our strategy of establishing well defined core areas with potential for high quality petroleum products is reflected in our existing areas of Gift/Little Horse, Tweedie and Wilson Creek. BXL's production base has grown in each of these areas and we continue to expand our presence through the acquisition of additional production and undeveloped lands. The three core areas have enabled us to post steady growth in all aspects of the business. During 1999, we expect to establish at least one additional core area with year round access and multi-zone potential.



CASH FLOW PER SHARE
($)

As the second branch of our growth strategy, we endeavor to have at least one high impact prospect in our portfolio at any given time. The allocation of up to 25 percent of our capital spending to these high impact plays gives our shareholders exposure to the potential dramatic growth in the value of BXL shares. The Western Canada Sedimentary Basin is mature and making significant discoveries is a challenge, however, we have the expertise to succeed and believe that our perseverance will pay off. It is our belief that by growing the Company through a combination of lower risk projects and high impact, higher reward prospects, we will provide increasing rewards for our shareholders.

1998 OPERATIONS REVIEW

BXL is well positioned to take advantage of these uncertain times. We have built a strong representation in three core areas and have increased our working interests and production base in all of them. As a result, BXL has strengthened its performance in almost all areas of the business. Due to successful drilling, 1998 average production increased to 739 boe per day from an average of 391 boe per day in 1997, balanced between natural gas and high gravity oil. Oil and nat-

ural gas revenues for 1998 were $5.1 million, up 71 percent from the previous year's $2.9 million. On a combined basis our net backs were $11.19 per boe, virtually unchanged from the prior year's average of $11.26.

BXL's 1998 capital expenditure program totalled $4.0 million, which included $2.0 million for drilling and completion, $1.3 million for equipping and facilities with the balance allocated to land, lease retention and seismic.

BXL's exploration efforts added a total of 316,000 boe on a proven basis and 385,000 boe on a probable basis. We participated in the drilling of 10 (2.6 net) wells, resulting in two (0.5 net) oil wells, three (1.0 net) natural gas wells and five (1.1 net) abandoned or suspended wells.

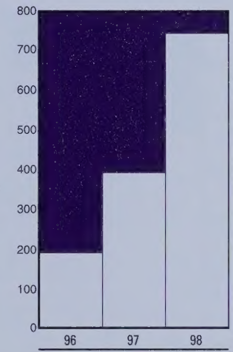
Our 1998 finding and onstream costs, which includes expenditures on facilities, equipping and land, totalled $11.83 per boe for proven reserves and $7.71 per boe for proven plus probable reserves. Our five year averages are $8.96 per boe for proven reserves and $5.87 per boe for proven plus probable reserves. We hope to reduce these finding costs through successful high impact exploration.

In 1998 BXL posted record cash flow before discontinued operations of $2.1 million or $0.10 per share versus $1.0 million or $0.06 per share in 1997. BXL recorded loss from continuing operations of $129,000 in 1998 compared to a loss of $173,000 in 1997. Net earnings were $652,000 or $0.03 per share in 1998 compared to a 1997 net loss of $110,100 or $0.01 per share after taking into account the disposition of the gas management contracts.

CORE AREA REVIEW

At Gift/Little Horse, BXL continued its pattern of drilling success and working interest consolidation. BXL chooses its drilling locations based on an extensive 70 square-mile, three-dimensional seismic database. Net production from the area increased to 284 bbls per day in 1998 from the prior year's 112 bbls per day. BXL drilled four (0.9 net) wells in the area, resulting in two (0.5 net) oil wells and two (0.4 net) dry holes. BXL continued to reduce operating costs in the area by investing in infrastructure and facility interests. During 1998 we brought on-stream three discoveries which were made late in 1997 and drilled two successful wells in the southeastern corner of the area. In the first quarter of 1999 BXL drilled one (.25 net) oil well and abandoned one (.25 net) well. The oil well was completed and placed on-stream in March, 1999. BXL also acquired interests in 15 (8.0 net) sections of land offsetting the discovery and will shoot a three-dimensional seismic survey prior to drilling early in 2000.

In the Tweedie area, since 1995 BXL's interests have grown to 11 (8.2 net) producing natural gas wells and 28 (19.2 net) sections of land. BXL continues to reduce operating costs and optimize production. Natural gas prices have risen dramatically over the last year, making natural gas production more economically viable. Net 1998 production from Tweedie was 1,738 mcf per day, up from an average of 1,411 mcf per day during 1997. BXL is currently tying in one natural gas well and is making offers to acquire additional interests in the area.



AVERAGE PRODUCTION
(boe per day)

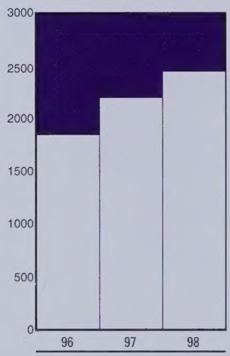
Wilson Creek has proven to be one of BXL's best property acquisitions. The multi-zone nature of the liquids-rich natural gas and light oil targets, coupled with BXL's facility interests, has provided us with numerous opportunities. 1998 average production was 1,478 mcf per day of natural gas and 79 bbls per day of oil and natural gas liquids. BXL continues to drill in the area and in the first quarter of 1999 participated in one (0.2 net) natural gas well. We plan to drill another three (1.0 net) wells during the second quarter targeting natural gas.

We have expanded the Wilson Creek area south into the Garrington/Medicine River areas, which have similar geological and access characteristics. In 1998 BXL participated in its first well (0.5 net) in the area, which encountered natural gas in the Lower Cretaceous and was put on-stream in November 1998. The well is currently restricted by the natural gas processing facilities and is producing 325 mcf per day and 16 bbls per

day of natural gas liquids net to BXL's interest. We have identified several other prospects in the area and anticipate drilling several wells in the area during 1999.

1998 HIGH IMPACT PLAY

BXL's strategy is to grow in its established core areas, while allocating part of its capital budget to high impact exploration that could add significant reserves and shareholder value. An example of a high impact prospect can be found in the Wild River area of west central Alberta where BXL operated the drilling of a 2,300 metre well targeting the natural gas-bearing Cardium Formation. The well encountered the reservoir as anticipated, however, during production testing it produced subeconomic amounts of natural gas. Further stimulation and testing will be undertaken in the third quarter of 1999. BXL has additional lands in the area and we will continue to evaluate this area for its exploration potential. BXL has invested approximately $500,000 in this play to date. Should the play concept work, the prospect could double BXL's gas reserves.



RESERVES
PROVEN AND PROBABLE
(mboe)

1999 OUTLOOK

Low oil prices have seriously eroded activity in the oil industry worldwide. A bright spot in the Alberta market place has been the addition of new pipeline capacity to move natural gas into the higher priced U.S. market. We believe that natural gas prices will remain strong through 1999 and beyond, making it difficult to acquire natural gas properties. As a result, BXL will commit the majority of its drilling funds to natural gas on our existing lands.

Over the past year oil has fallen to inflation-adjusted historic lows, but is expected to rebound to between US$15 and US$17 by late 1999. With many companies over-leveraged, we feel that oil acquisitions will be easier to accomplish. BXL will continue to concentrate its efforts on acquiring light gravity, sweet oil reserves and production.

BXL is well positioned to take advantage of the current uncertainty in the oil and natural gas industry. Since its inception in 1993, we have concentrated on the exploration and production of the highest quality oil and natural gas reserves. Our asset base was developed using a sound business approach and we are now reaping the benefits. We enter 1999 with an experienced management team, a strong balance sheet, available lines of credit, and an increasing production base.

ACKNOWLEDGEMENTS

Despite the volatility in commodity prices, BXL remains committed to its goal of creating shareholder value through financial prudence, steady growth in our established core areas, and potentially explosive growth with our exposure to high impact exploration prospects. Our success at weathering the challenges of 1998 is a tribute to the staff of BXL and the guiding hand of our Board of Directors. Finally, we thank our shareholders for sharing our optimism that the industry will enjoy stronger prices and greater prosperity in the near future.

On behalf of the Board of Directors,

Bruce G. McIntyre, *President*
March 19, 1999

OPERATIONS REVIEW

OVERVIEW

DURING 1998 BXL CONCENTRATED ON EXPANDING ITS INTERESTS IN THE THREE CORE AREAS OF WILSON CREEK, GIFT/LITTLE HORSE AND TWEEDIE. OUR production averaged 739 boe per day, an increase of 89 percent over 1997's average of 391 boe per day. 1998 average production consisted of 3,591 mcf per day, up 49 percent over 1997's average of 2,404 mcf per day and 380 bbls per day, a 152 percent increase over 1997's 151 bbls per day.

WELL ACTIVITY

The Wilson Creek area, which is characterized by multi-zone targets of liquids-rich natural gas and light sweet crude oil, experienced a 125 percent increase in production to 227 boe per day, versus 101 boe per day in 1997. The production increases were the result of a discovery, several tie-ins and compressor additions.

At Gift/Little Horse, our prime oil producing area, production rose 154 percent over 1997 levels. 1998 production averaged 284 bbls per day (1997-111 bbls per day) as a result of successful drilling in late 1997 and the first quarter of 1998.

Production at Tweedie, our shallow natural gas core area rose 23 percent in 1998, averaging 1,738 mcf per day compared to 1,411 mcf per day in 1997. BXL continues to increase its interests at Tweedie and expects additional production increases in 1999.

Our three core areas accounted for 93 percent of our 1998 production, with other areas contributing the remaining 54 boe per day, compared to 37 boe per day in 1997.

PRODUCTION BY AREA	1998	% CHANGE	1997	% CHANGE	1996
Oil and NGLs *(bbls per day)*					
Gift/Little Horse	**284**	154	112	19	94
Wilson Creek	**79**	155	31	343	7
Other	**17**	113	8	(81)	42
	380	152	151	6	143
Natural gas *(mcf per day)*					
Tweedie	**1,738**	23	1,411	-	58
Wilson Creek	**1,478**	112	698	264	192
Other	**375**	27	295	29	228
	3,591	49	2,404	403	478
TOTAL *(BOE PER DAY)*	**739**	**89**	**391**	**105**	**191**

WILSON CREEK

WILSON CREEK, characterized by liquids-rich natural gas and light gravity crude oil production from multiple zones, has proven to be one of BXL's best acquisitions to date. BXL acquired the area in mid-1996 when production was approximately 50 boe per day. Since then, production has increased by 350 percent to average 227 boe per day in 1998.

During 1998 BXL drilled two (0.8 net) wells in the Wilson Creek area, resulting in one (0.5 net) natural gas well and one (0.3 net) suspended oil well. The natural gas well was drilled during the second quarter and tied into production facilities late in the fourth quarter. The well encountered an extension of an existing natural gas field and is currently producing at restricted net rates of 325 mcf per day and 16 bbls of natural gas liquids due to plant constraints. The full impact of this well will be reflected in our first quarter 1999 production numbers. BXL will drill an offsetting location to this well once plant restrictions are solved. The suspended oil well produced approximately 10 bbls per day during a production test and will remain shut-in until oil prices recover.

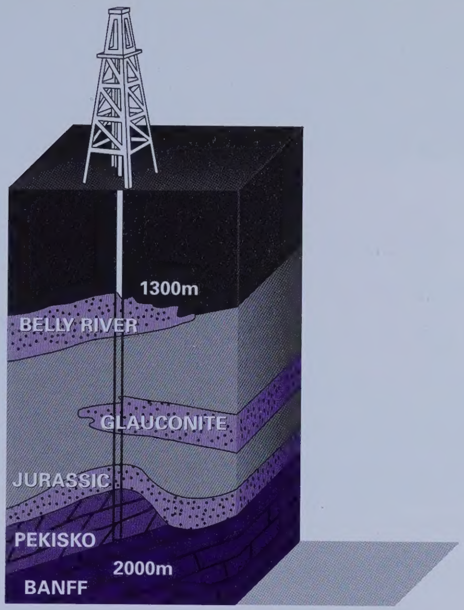
In 1998 BXL also tied-in one (0.4 net) natural gas well that had been drilled during the previous year. The well is on production at 30 mcf per day and three bbls of natural gas liquids net to BXL. We are investigating the feasibility of adding compression to several wells in the Wilson Creek area to increase both production rates and recoverable reserves. BXL added compression facilities to two (0.3 net) wells on the west edge of our Wilson Creek core area, which will allow these wells to produce at a sustained rate of 3,000 (500 net) mcf per day and 70 (11 net) bbls per day.

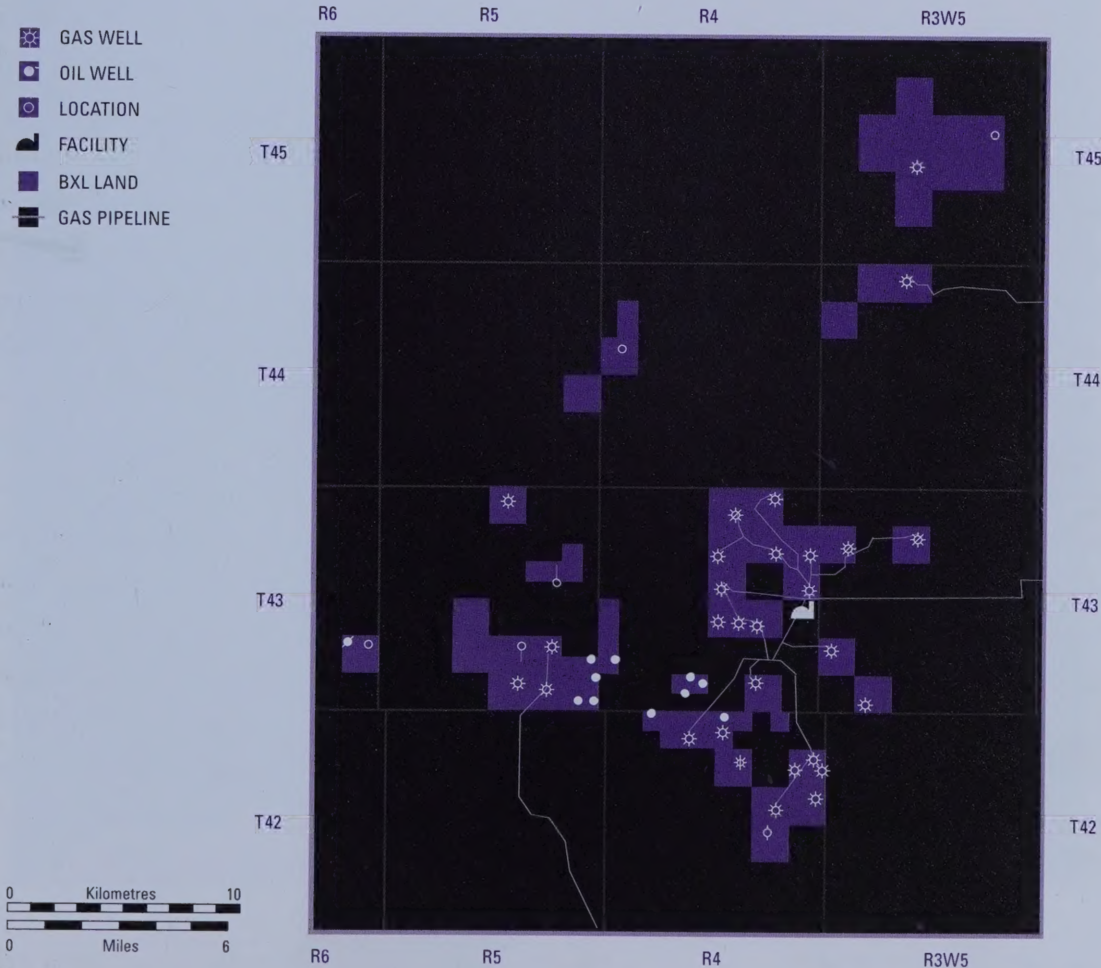
During the first quarter of 1999 BXL drilled and cased one (0.2 net) natural gas well in the Wilson Creek area, which will be completed during the first quarter of 1999 and placed on production in the third quarter. The delay is due to gathering system constraints, which should be resolved later in 1999. Success with this well will result in BXL drilling at least two (0.3 net) additional wells on the prospect.

We have identified several exciting natural gas prospects in the Wilson Creek area that we will pursue during the second and third quarters of 1999. BXL currently controls these prospects through a 90 percent interest in one prospect and 80 percent in another. Although our access to capital will determine our ultimate level of working interest in these wells, we are committed to keeping at least 50 percent of each prospect. The total potential of these prospects is in excess of five bcf.

BXL will continue to grow in the area and is currently extending its land holdings southward. To date we have acquired 320 net acres on one lease, have an additional 3,840 net acres under a seismic review option and have requested that the Crown make several more sections available for public auction.

Wells in the Wilson Creek area can produce light oil or liquids-rich natural gas from one or more of 12 different productive horizons. The multi-zone nature of the area reduces the risk of drilling an unsuccessful well. The zones represented in the accompanying diagram are the primary productive formations in the area.





GIFT/LITTLE HORSE

THE GIFT/LITTLE HORSE area is BXL's main oil producing property with the Gilwood Formation the targeted producing zone at approximately 2,000 metres. BXL has an extensive undeveloped land base of 24,800 (13,000 net) acres and over 70 square miles of three-dimensional seismic. BXL's production in this north-central area increased by 154 percent in 1998 to 284 bbls per day from 112 bbls per day in 1997.

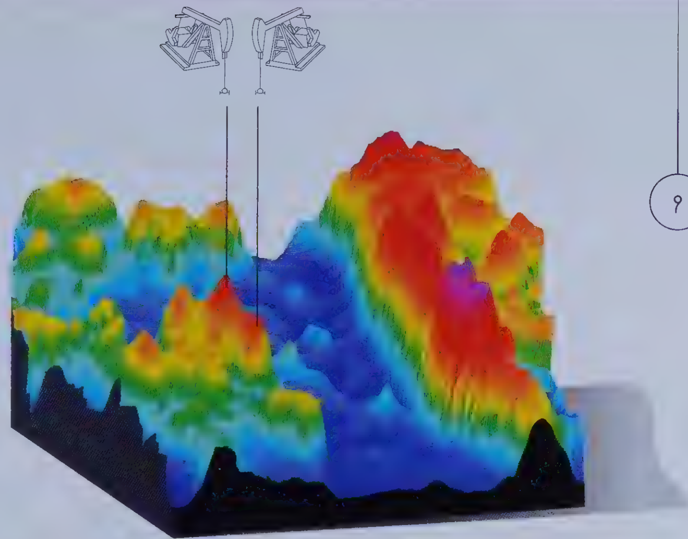
The Gift/Little Horse area offsets the Peace River Arch and consequently the geology in the area is complex. The Gilwood Formation is productive on structural highs and 3-D seismic is required to identify the productive structures. Three-dimensional seismic is a technological advancement that allows an explorationist to map very complex structures far below the earth's surface. The illustration on the top of the facing page depicts the structures at the Gilwood level. The red-coloured areas represent the structural highs that BXL targets as potentially productive locations. The blue portions of the illustration are the low non-prospective areas. The oil wells shown on the illustration were drilled by BXL and are currently producing 320 (75 net) bbls per day, with several offset locations to the two discoveries.

During 1998 BXL participated in the drilling of four (0.9 net) wells in the Gift/Little Horse area, resulting in two (0.5 net) oil wells and two (0.4 net) wells that were dry and abandoned. Also during the year, BXL made significant investments in infrastructure in the Gift/Little Horse area. At present we have only one productive well in the Little Horse area that is not tied into the gathering system. Connecting oil wells into Company-owned gathering systems reduced lifting costs in the Gift/Little Horse area to $3.95 per bbl.

To date in 1999 BXL has participated in two (0.50 net) wells in the area, resulting in one (0.25 net) oil well and one (0.25 net) dry hole. BXL has also dramatically increased its land holdings in the Gift/Little Horse area. Subsequent to drilling the two wells, BXL acquired interests in 8,960 (6,400 net) acres offsetting the discovery and four square miles of 3-D seismic. These lands directly offset four (1.0 net) oil discoveries that BXL has made over the last two years. BXL currently owns 12,150 (9,600 net) acres on-trend with these discoveries. These lands will require selective 3-D seismic coverage, which we will shoot in early 2000 with at least one well to follow. Reserves potential are 250,000 to 400,000 bbls per well and there are up to 10 locations that could be drilled depending on the results of the seismic survey.

BXL expects to remain very active in the Gift/Little Horse area. We expect to take advantage of the current reduced prices of land, seismic data and drilling in the area as a result of the depressed oil prices.

The illustration represents a 3-D seismic survey in the Gift/Little Horse area. The areas coloured in red represent where the Gilwood Formation produces light oil. The two wells shown on the illustration currently produce 320 bbls per day (75 net). BXL uses the three-dimensional seismic technology to reduce risk in the Gift/Little Horse area.

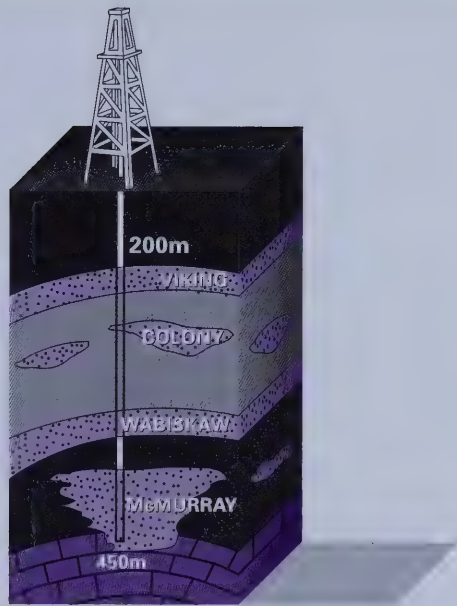


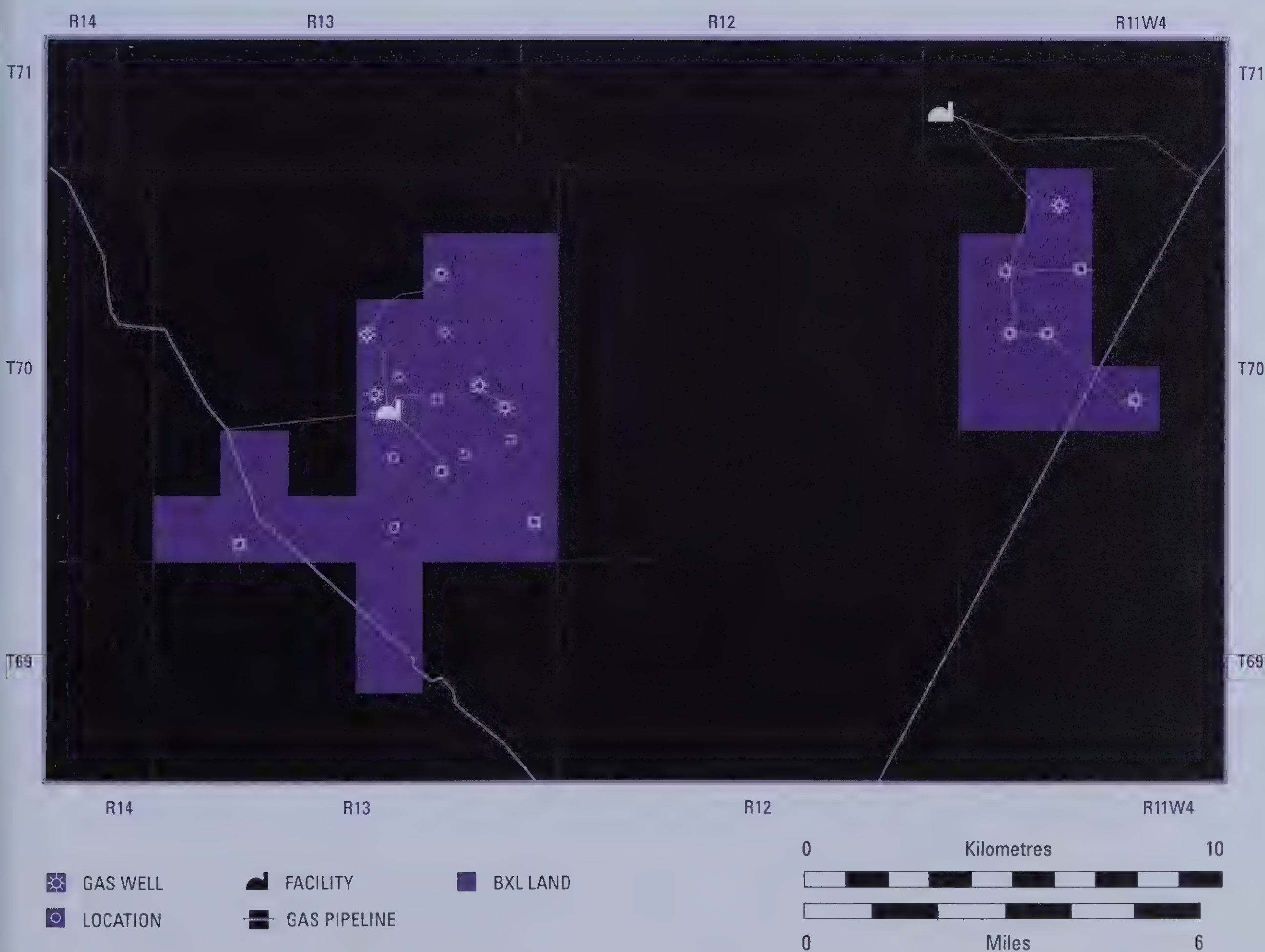
BXL HAS BEEN active in Tweedie, a shallow natural gas producing area in east central Alberta, since 1995. Typical wells in the area are 450 metres deep and test up to four potentially productive horizons. An average well produces between 200 and 500 mcf of natural gas per day. BXL entered the area in early 1994 with two shut-in gas wells and interests in 5,760 (1,920 net) acres of land. Since that time, our interests have grown to 11 (8.0 net) producing gas wells, three (2.2 net) shut-in gas wells, 17,280 (11,648 net) acres of mineral rights and interests in two compression stations that were constructed by the Company. Current net production is 1,800 mcf per day and at today's historically high natural gas prices, this property is very profitable.

During 1998, BXL tied-in two wells on the eastern Tweedie property. At the same time, we received Alberta Energy and Utility Board approval for reduced spacing on the west Tweedie block. BXL has the ability to drill a number of low-risk natural gas wells that can use existing gathering and compression facilities. We are finalizing our drilling plans to take advantage of historically high gas prices. Access to the Tweedie area has improved over the last several years and we will be able to drill during the summer with additional production commencing next winter. We are currently negotiating the acquisition of additional producing lands in the area.

To date in 1999 BXL has renegotiated operating, and reconfigured water disposal agreements in the area, which have helped to lower operating costs. As a result of reworking three (2.4 net) natural gas wells, water production has declined. Two (1.4 net) of the wells were returned to production and the other is currently being tied into the BXL gathering system.

The Tweedie area is prospective for natural gas. The diagram represents the producing horizons that are evaluated by wells drilled in the area. Wells typically produce between 200 and 500 mcf per day and at current gas prices are very economic.





HIGH IMPACT EXPLORATION

In addition to our lower risk areas, we have committed to our shareholders that we will participate in high impact projects with potential to substantially increase BXL's reserve base. The Wild River project in west central Alberta is an excellent example of this commitment. Geological mapping and the occurrence of a thick Cardium zone in an old well bore identified the prospect, which had the potential to increase BXL's natural gas reserves by two or three-fold. BXL and its partners assembled a large land presence prior to spudding the well.

BXL operated the drilling of the exploratory well (0.5 net) which was cased, completed in the Cardium zone and production tested. The results of the production test were inconclusive, although it yielded small amounts of fresh water and increasing amounts of natural gas. BXL will resume testing this summer. The Cardium Formation typically does not produce water so the well is somewhat enigmatic. BXL currently owns interests in eight (3.0 net) sections in the area and holds a 25 percent working interest in an offsetting shut-in natural gas well.

BXL's technical team is currently working towards the identification and capture of our next high impact prospect.

LAND HOLDINGS

The accompanying table illustrates BXL's strategy of focusing on core areas and expanding our ownership in lands within those core areas. A company's ability to grow is reflected in its inventory of undeveloped acreage. In 1998, BXL increased its undeveloped lands by 47 percent to 18,100 net acres from 12,300 net acres, with 82 percent of the acreage located within our defined core areas. An independent evaluation by Charter Land Service has given BXL's undeveloped land base a value of $1.7 million or $98 per acre. BXL's average working interest in its undeveloped lands rose to 36 percent in 1998 from 22 percent in 1997.

To date in 1999 BXL has acquired interests in 11,200 gross and 8,200 net acres of undeveloped lands, primarily in our Gift/Little Horse and Tweedie core areas. BXL's average working interest in these 1999 acquisitions is 73 percent.

LAND HOLDINGS (ACRES)

	TOTAL		DEVELOPED		UNDEVELOPED	
	GROSS	NET	GROSS	NET	GROSS	NET
Wilson Creek	41,700	10,200	20,100	3,600	21,600	6,600
Gift/Little Horse	21,900	7,300	6,100	700	15,800	6,600
Tweedie	17,300	11,900	14,100	10,100	3,200	1,800
Other	12,700	3,800	2,500	700	10,200	3,100
TOTAL	**93,600**	**33,200**	**42,800**	**15,100**	**50,800**	**18,100**

DRILLING ACTIVITY (NUMBER OF WELLS)

	1998		1997		1996	
	GROSS	**NET**	GROSS	NET	GROSS	NET
Gas	**3**	**1.0**	6	2.1	2	0.7
Oil	**2**	**0.5**	5	2.0	2	0.3
Abandoned/suspended	**5**	**1.1**	2	0.6	4	1.4
TOTAL	**10**	**2.6**	**13**	**4.7**	**8**	**2.4**

OIL AND GAS RESERVES

BXL's oil and natural gas reserves were evaluated by Gilbert Laustsen Jung Associates Ltd. effective January 1, 1999 using the pricing assumptions summarized on page 14. According to the report, BXL's oil and natural gas liquids reserves increased 14 percent during 1998 to 592,000 bbls on a proven basis and 37 percent on a proven plus probable basis. The majority of the oil reserves were added at Gift/Little Horse. Natural gas reserves declined slightly in 1998 as a result of reserve revisions primarily at Tweedie. Proven reserves fell two percent to 8.2 bcf and by two percent on a proven plus probable basis to 14.5 bcf.

RESERVES AT JANUARY 1, 1999

	COMPANY INTEREST RESERVES BEFORE ROYALTY			ESTIMATED BEFORE TAX PRESENT VALUE OF FUTURE NET REVENUE ($000's)		
				Discounted at		
Reserve category	Oil & NGLs (mbbls)	Natural Gas (mmcf)	Boe (mboe)	10%	12%	15%
Proven producing	528	6,476	1,176	10,574	10,074	9,406
Proven non-producing	64	1,760	240	1,429	1,305	1,147
TOTAL PROVEN	**592**	**8,236**	**1,416**	**12,003**	**11,379**	**10,553**
Probable	393	6,226	1,016	6,172	5,406	4,493
Total proven + probable	985	14,462	2,432	18,175	16,785	15,046
Less 1/2 probable	(197)	(3,113)	(508)	(3,086)	(2,703)	(2,247)
ESTABLISHED (PROVEN + 1/2 PROBABLE)	**788**	**11,349**	**1,924**	**15,089**	**14,082**	**12,799**

RESERVES RECONCILIATION

	OIL AND NGLS (MBBLS)			NATURAL GAS (MMCF)			BOE (MBOE)		
	Proven	Probable	Total	Proven	Probable	Total	Proven	Probable	Total
January 1, 1997	279	287	566	7,920	4,880	12,800	1,071	775	1,846
Acquisitions	(1)	3	2	516	539	1,055	52	56	108
Discoveries	188	56	244	1,093	746	1,839	297	131	428
Production	(55)	-	(55)	(878)	-	(878)	(143)	-	(143)
Revisions	106	(146)	(40)	(287)	225	(62)	77	(123)	(46)
January 1, 1998	517	200	717	8,364	6,390	14,754	1,354	839	2,193
Acquisitions	-	-	-	246	41	287	25	4	29
Discoveries	206	180	386	1,096	2,053	3,149	316	385	701
Production	(139)	-	(139)	(1,311)	-	(1,311)	(270)	-	(270)
Revisions	8	13	21	(159)	(2,258)	(2,417)	(9)	(212)	(221)
JANUARY 1, 1999	**592**	**393**	**985**	**8,236**	**6,226**	**14,462**	**1,416**	**1,016**	**2,432**

FINDING AND ONSTREAM COSTS

BXL's 1998 finding and onstream costs were higher than forecast, at $11.83 per boe for proven reserves and $7.71 per boe for proven plus probable reserves. Finding costs on a five-year basis averaged $8.96 per boe for proven reserves and $5.87 per boe for proven plus probable reserves. Success on one of our high impact prospects would significantly lower these costs.

FINDING AND ONSTREAM COSTS

	FIVE YEAR TOTAL	1998	1997	1996	1995	1994
Oil and Gas Expenditures *($ Thousands)*						
Land and lease retention	753	226	190	229	40	68
Geological and geophysical	481	82	216	110	32	41
Drilling, completions and abandonments	5,905	2,093	2,337	820	214	441
Equipping and facilities	4,713	1,307	2,477	752	177	-
Acquisitions (net of dispositions)	4,810	82	67	1,966	1,552	1,143
Capitalized overhead and other	639	136	104	111	130	158
TOTAL OIL AND GAS EXPENDITURES	**17,301**	**3,926**	**5,391**	**3,988**	**2,145**	**1,851**
Net Reserve Additions* *(mboe)*						
Proven	1,930	332	426	736	156	280
Proven and probable	2,946	509	490	1,269	91	587
Finding and Onstream Costs *($ per boe)*						
Proven	8.96	11.83	12.66	5.42	13.75	6.61
Proven and probable	5.87	7.71	11.00	3.14	23.57	3.15
Established (proved + 1/2 probable)	7.10	9.34	11.77	3.98	17.37	4.27

**Net reserve additions include discoveries, acquisitions, dispositions and revisions.*

RESERVES PRICING ASSUMPTIONS*

	OIL			NATURAL GAS		
YEAR	WTI at Cushing	Edmonton Posted Price	Corporate Average	Alberta Spot	Progas	Corporate Average
	($US per bbl)	*($Cdn per bbl)*	*($Cdn per bbl)*	*($Cdn per mcf)*	*($Cdn per mcf)*	*($Cdn per mcf)*
1999	15.00	21.50	21.27	2.35	2.20	2.35
2000	17.00	23.50	23.27	2.25	2.25	2.31
2001	19.00	25.50	25.27	2.25	2.25	2.30
2002	20.00	26.00	25.76	2.30	2.30	2.34
2003	20.50	26.50	26.26	2.40	2.40	2.45

**Based on Gilbert Laustsen Jung Associates Ltd. base case price forecast effective January 1, 1999 - first five years only.*

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion of BXL's operating and financial results for 1998 and should be read in conjunction with the financial statements for the year ended December 31, 1998 commencing on page 24. Estimates provided for 1999 are based on assumptions of future events. Actual results will vary from these estimates and the variations may be significant.

PRODUCTION VOLUMES

THE 89 PERCENT INCREASE IN PRODUCTION VOLUMES TO 739 BOE PER DAY IN 1998 FROM 391 BOE PER DAY IN 1997 WAS PRIMARILY THE RESULT OF drilling at Gift/Little Horse and Wilson Creek. Three quarters of the 152 percent increase in oil and NGL production to 380 bbls per day occurred at Gift/Little Horse and two thirds of the 49 percent increase in natural gas production to 3,591 mcf per day occurred at Wilson Creek.

AVERAGE DAILY PRODUCTION VOLUMES	1998	%CHANGE	1997	%CHANGE	1996
Oil and NGLs (bbls)	**380**	152	151	6	143
Natural gas (mcf)	**3,591**	49	2,404	403	478
Equivalent bbls (boe)	739	89	391	105	191

See production by area on page five.

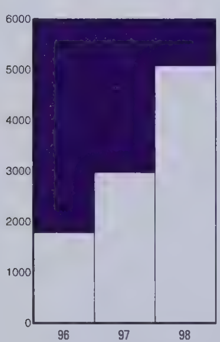
PRICES

Consistent with the steep decline in world oil prices, BXL's average oil and NGL selling price dropped 31 percent to $18.09 per barrel in 1998 from $26.14 per barrel in 1997. All of BXL's 1998 and 1997 oil and NGL production was sold at daily posted prices.

BXL's average 1998 natural gas selling price was $1.95 per mcf at the plantgate. This price compares favourably to the prior year's price of $1.73 per mcf and approximates the 1998 AECO daily spot plantgate price of $1.94 per mcf. During 1998, BXL sold 44 percent (1997 - 58 percent) of its gas production to the spot market, 37 percent (1997 - 29 percent) to major aggregators and 19 percent (1997 - 13 percent) to term contracts of less than two years.

BXL AVERAGE SELLING PRICES	1998	%CHANGE	1997	% CHANGE	1996
Oil and NGLs ($ per bbl)	**18.09**	(31)	26.14	(8)	28.36
Natural gas ($ per mcf)	**1.95**	13	1.73	2	1.69
Equivalent barrels ($ per boe)	**18.79**	(9)	20.73	(19)	25.47
AVERAGE BENCHMARK PRICES					
Oil -WTI Cushing ($US per bbl)	**14.43**	(30)	20.57	(7)	22.02
-Edmonton Par ($Cdn per bbl)	**20.09**	(27)	27.65	(5)	29.24
Gas - AECO daily spot plantgate ($Cdn per mcf) [1]	**1.94**	16	1.67	25	1.34
CANADIAN/US DOLLAR EXCHANGE RATE	**0.677**	(6)	0.724	(1)	0.733

[1] *Source: Canadian Gas Price Reporter*



OIL AND GAS REVENUES
($ thousands)

OIL AND GAS REVENUES

Comparing 1998 to last year, the 71 percent increase in oil and gas revenues to $5,069,000 (1997 - $2,963,000) did not keep pace with the 89 percent increase in overall production volumes. Although oil and NGL production increased 152 percent and natural gas production increased 49 percent, the 13 percent increase in natural gas prices was more than offset by the 31 percent drop in oil and NGL prices.

GROSS PRODUCTION REVENUE *($ thousands)*	1998	%CHANGE	1997	%CHANGE	1996
Oil and NGLs	**2,509**	74	1,441	(3)	1,480
Natural gas	**2,560**	68	1,522	416	295
Total	5,069	71	2,963	67	1,775

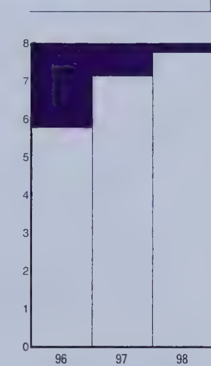
ROYALTIES

The six percent increase in royalties in 1998 is much lower than the 71 percent increase in gross production revenue for two reasons. First, a larger portion of BXL's Crown royalties is eligible for relief through the Alberta Royalty Tax Credit program and second, a number of the new wells at Gift/Little Horse qualified for royalty holidays. The drop in royalties, net of ARTC, is very evident on a per unit basis, where oil and NGL royalties declined 57 percent to $2.32 per barrel in 1998 (1997 - $5.39 per barrel) and natural gas royalties declined 30 percent to $0.26 per mcf (1997 - $0.37 per mcf). We anticipate royalties, as a percentage of revenue, to increase in 1999 as wells come off royalty free status.

ROYALTIES *($ thousands)*	1998	%CHANGE	1997	%CHANGE	1996
Crown	**672**	11	608	130	264
Overriding and other	**213**	145	87	(51)	176
Total	**885**	27	695	58	440
Alberta Royalty Tax Credit	**(226)**	205	(74)	76	(42)
Net royalties	659	6	621	56	398
Net royalty rate *(as a percentage of revenue)*	**13%**		21%		22%

PRODUCTION EXPENSES

Production expenses increased 90 percent to $1,390,000 in 1998 (1997 - $732,000) which is commensurate with the 89 percent increase in average daily production volumes. On a per unit basis, production expenses were virtually unchanged at $5.15 per boe in 1998 from $5.12 per boe in 1997. There were, however, significant changes in production expenses within the commodity mix. When compared to the prior year, 1998 oil and NGL production expenses declined 29 percent to $3.31 per barrel whereas 1998 natural gas production expenses increased 31 percent to $0.71 per mcf. Shutting-in marginal producers and pipelining new wells at Gift/Little Horse were the primary reasons for reduced oil and NGL expenses. On the natural gas side, the underutilization of one of BXL's compressors and high water handling costs at Tweedie contributed to most of the increase in expenses. Although BXL is implementing a plan to reduce natural gas production expenses in 1999, we do not foresee a major reduction in overall production expenses on a boe basis.



CORPORATE NETBACKS
($ per boe)

NET BACKS

Oil and NGL operating net backs declined 23 percent to $12.46 per barrel in 1998 (1997 - $16.11 per barrel) as the 31 percent drop in selling prices exceeded the benefits of reduced production expenses and royalties. Natural gas net backs were up 20 percent to $0.98 per mcf (1997 - $0.82 per mcf) as a result of the mix of higher selling prices, lower royalties and higher production expenses. The effect of the aforementioned on a combined boe basis was a minor $0.07 decline in operating net backs to $11.19 per boe in 1998 from $11.26 per boe in 1997. All in cash net backs, after corporate expenses, increased nine percent to $7.75 per boe in 1998 from $7.13 per boe in 1997. The primary reason for the increase was a 22 percent decrease in general and administrative expenses to $2.39 per boe in 1998 from $3.06 per boe in 1997.

NET BACKS	**1998**	%CHANGE	1997	%CHANGE	1996
Oil and NGLs *($ per bbl)*					
Selling price	**18.09**	(31)	26.14	(8)	28.36
Royalties (net of ARTC)	**(2.32)**	(57)	(5.39)	(21)	(6.84)
Production expenses	**(3.31)**	(29)	(4.64)	(43)	(8.18)
Operating netback	12.46	(23)	16.11	21	13.34
Natural Gas *($ per mcf)*					
Selling price	**1.95**	13	1.73	2	1.69
Royalties (net of ARTC)	**(0.26)**	(30)	(0.37)	61	(0.23)
Production expenses	**(0.71)**	31	(0.54)	23	(0.44)
Operating netback	0.98	20	0.82	(20)	1.02
All Products *($ per boe)*					
Selling price	**18.79**	(9)	20.73	(19)	25.47
Royalties (net of ARTC)	**(2.45)**	(44)	(4.35)	(24)	(5.71)
Production expenses	**(5.15)**	1	(5.12)	(29)	(7.24)
Operating netback	11.19	(1)	11.26	(10)	12.52
General and administrative	**(2.39)**	(22)	(3.06)	(42)	(5.31)
Interest and current taxes	**(1.05)**	(2)	(1.07)	(26)	(1.44)
Corporate netback	7.75	9	7.13	24	5.77

GENERAL AND ADMINISTRATIVE EXPENSES

Total general and administrative costs were up 32 percent to $909,000 in 1998 from $688,000 in 1997 as a result of higher personnel costs. Overhead recoveries declined 13 percent as a result of a reduced capital expenditure program in 1998 compared to 1997. Capitalized general and administrative costs were $136,000 in 1998, a 31 percent increase over the $104,000 capitalized in 1997. BXL capitalizes that portion of general and administrative expenditures that relate directly to exploration and development activities. Most of these expenditures are in respect to exploration personnel costs, which were higher in 1998 than in 1997. After overhead recoveries and capitalized amounts, 1998 expensed general and administrative costs were $645,000, a 48 percent increase over the $437,000 recorded in 1997. Comparing 1998 to 1997, BXL experienced decreases in all four categories of general and administrative costs on a boe basis, as increased expenses were spread over a larger increase in production volumes. As BXL's production grows, we anticipate general and administrative expenses on a boe basis to decline, however, future decreases will not likely be as significant as experienced in previous years.

GENERAL AND ADMINISTRATIVE EXPENSES	**1998**	%CHANGE	1997	%CHANGE	1996
($ thousands)					
Total general and administrative costs	**909**	32	688	25	550
Less overhead recoveries	**(128)**	(13)	(147)	113	(69)
Net general and administrative costs	**781**	44	541	12	481
Less capitalized portion	**(136)**	31	(104)	(6)	(111)
Expensed general and administrative costs	645	48	437	18	370
Capitalization rate	**17%**		19%		23%
($ per boe)					
Total general and administrative costs	**3.37**	(30)	4.82	(39)	7.90
Overhead recoveries	**(0.48)**	(53)	(1.03)	3	(1.00)
Capitalized portion	**(0.50)**	(32)	(0.73)	(54)	(1.59)
Expensed general and administrative costs	2.39	(22)	3.06	(42)	5.31

INTEREST EXPENSE

BXL's 1998 interest expense increased 83 percent to $280,000 in 1998 from $153,000 in 1997, primarily as a result of higher average bank debt outstanding throughout the year. Interest expense in 1998 relates to bank loans - 73 percent (1997 - 58 percent), convertible debentures - 14 percent (1997 - 26 percent) and Revenue Canada - 13 percent (1997 - 16 percent). Amounts paid to Revenue Canada are in respect to renouncing income tax deductions to flow-through share subscribers prior to incurring the related expenditures. Relative to production volumes, BXL's interest expense declined marginally to $1.04 per boe in 1998 from $1.07 per boe in 1997. Although there are many factors which will determine BXL's future debt levels, we do not anticipate interest expense to fall significantly on a boe basis in 1999.

LONG TERM DEBT AT YEAR END *($ thousands)*	**1998**	%CHANGE	1997	%CHANGE	1996
Bank debt	**3,119**	12	2,780	139	1,162
Convertible debentures	**430**	(4)	450	-	450
Total	**3,549**	10	3,230	100	1,612
Interest expense	280	83	153	51	101

DEPLETION AND DEPRECIATION EXPENSE

Total 1998 depletion and depreciation expense was $2,079,000, which is a 79 percent increase over the $1,159,000 recorded in 1997. Ninety-four percent of the year-over-year increase is due to the jump in depletion and depreciation of oil and gas properties to $1,943,000 in 1998 (1997 - $1,080,000) which is based on production volumes. On a boe basis, the depletion and depreciation of oil and gas properties declined a nominal five percent to $7.20 per boe in 1998 (1997 - $7.56 per boe) and the provision for future site restoration costs was virtually unchanged at $0.45 per boe (1997 - $0.44 per boe). Lower depletion and depreciation expense in 1999 will depend on BXL's ability to increase the ratio of proven reserves booked to capital expenditures incurred.

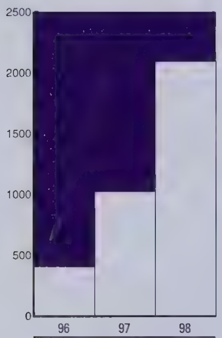
DEPLETION AND DEPRECIATION EXPENSE	**1998**	%CHANGE	1997	%CHANGE	1996
($ thousands)					
Depletion and depreciation of oil and gas properties	**1,943**	80	1,080	113	507
Provision for future site restoration costs	**120**	90	63	215	20
Other	**16**	-	16	(30)	23
Total	**2,079**	79	1,159	111	550
($ per boe)					
Depletion and depreciation of oil and gas properties	**7.20**	(5)	7.56	4	7.27
Provision for future site restoration costs	**0.45**	2	0.44	52	0.29
Other	**0.06**	(45)	0.11	(67)	0.33
Total	**7.71**	(5)	8.11	3	7.89

TAXES

Taxes totalled $145,000 in 1998 of which $4,000 is due currently and $141,000 is deferred. The current portion is comprised of the large corporations tax, which is levied by the Federal government on the capital of an enterprise. The deferred tax liability arises primarily as a result of depletion and depreciation expense with no tax basis, which is the cumulative effect of renouncing income tax deductions to flow-through share subscribers. In 1997, BXL recorded taxes of $35,000, none of which was due on a current basis.

At the end of 1998, BXL has approximately $7.6 million of deductions available to reduce future year's income taxes. Most of these amounts are deductible on a declining balance basis, at rates ranging from 10 to 30 percent per year. In addition, the income tax deductions associated with $1,226,000 of 1999 capital expenditures were renounced to flow-through share subscribers and will not be available to BXL. As a result of the magnitude and nature of BXL's available tax deductions relative to the company's production base, it appears likely that a current income tax liability will be recorded in 1999.

FUTURE TAX DEDUCTIONS *($ thousands)*	**1998**	1997	1996	Deduction Rate
Canadian exploration expenses	**28**	640	520	100%
Canadian development expenses	**679**	686	330	30%
Canadian oil and gas property expenses	**3,125**	3,170	3,253	10%
Undepreciated capital costs	**3,646**	3,347	1,570	20-30%
Other	**109**	90	68	20%
Total	**7,587**	7,933	5,741	



CASH FLOW BEFORE DISCONTINUED OPERATIONS
($ thousands)

CASH FLOW AND LOSS FROM CONTINUING OPERATIONS

Cash flow from continuing operations increased 105 percent to $2,091,000 in 1998 (1997 - $1,020,000) as the combination of an 89 percent increase in production volumes and a 13 percent increase in natural gas prices overcame a 31 percent decrease in oil and NGL prices. On a per share basis, cash flow from continuing operations increased 67 percent to $0.10 per share in 1998 from $0.06 per share in 1997. The 105 percent increase in cash flow translated to a 67 percent increase on a per share basis as a result of a 15 percent increase in the weighted average number of shares outstanding in 1998 to 20,070,000 shares (1997 - 17,481,000 shares). The loss from continuing operations fell 25 percent to $129,000 in 1998 from $173,000 in 1997. The loss from continuing operations was $0.01 per share in both 1998 and 1997.

DISCONTINUED OPERATIONS

In mid 1998 BXL disposed of its gas management contract line of business, an asset that was initially acquired in 1993. Cash proceeds, net of related charges, were $1,068,000. After deducting deferred income taxes and the notional carrying value of the contracts, the sale resulted in a gain on disposition of $711,000.

Discontinued operations were $781,000 in 1998, which is comprised of the gain on sale of $711,000 and six months operating results of $70,000. Cash provided by discontinued operations in 1998 was $1,195,000, which amount is not affected by deferred income taxes. In 1997 discontinued operations generated income, net of taxes, of $62,000 and cash flow of $112,000.

CAPITAL EXPENDITURES

Capital expenditures declined 33 percent to $4,026,000 in 1998 from $6,047,000 in 1997. The primary reason for the reduction was the drop in world oil prices which caused a dramatic decline in the availability of equity financing, especially for smaller companies. Nineteen ninety-eight was the first year in the company's five year history that capital expenditures did not exceed those of the prior year. During 1998, only four percent of our capital expenditures were committed to property acquisitions, which is the smallest amount spent on acquisitions since 1994. Property dispositions totalled $95,000 in 1998, down substantially from the $617,000 in dispositions in 1997. As a result of previous year's efforts, disposing of non core properties was not a priority in 1998.

CAPITAL EXPENDITURES *($ thousands)*	**1998**	1997	1996
Property acquisitions	**177**	685	2,203
Land and lease retention	**226**	190	229
Geological and geophysical	**83**	216	110
Drilling and completion	**2,030**	2,336	820
Production equipment and facilities	**1,306**	2,477	752
Capitalized overhead	**136**	104	111
Abandonments and site reclamation	**63**	-	-
Office equipment	**5**	39	33
Total	**4,026**	6,047	4,258
Property dispositions	**(95)**	(617)	(237)
Net capital expenditures	**3,931**	5,430	4,021

LIQUIDITY AND CAPITAL RESOURCES

BXL financed its 1998 capital expenditure program with a combination of cash flow from continuing operations, cash provided by discontinued operations, new equity and a minor amount of bank debt. Historically, BXL's growing reserve base required substantially more funding than could be provided by cash flow alone. During 1998, as a result of the curtailment in the equity markets and the jump in BXL's cash flow, our net capital expenditure program of $3,931,000 was only two times (1997 - five times) cash flow from continuing operations. In order to continue the rate of growth experienced over the last few years, BXL will have to increase capital expenditures relative to cash flow.

CAPITAL RESOURCES *($ thousands)*	**1998**	1997	1996
Cash flow before discontinued operations	**2,091**	1,021	403
Discontinued operations	**1,195**	112	946
Equity (net of purchases and issue costs)	**1,167**	1,862	1,811
Bank debt	**339**	1,618	473
Working Capital	**(841)**	817	388
Convertible debentures	**(20)**	-	-
Total	3,931	5,430	4,021

During 1998 BXL issued a total of 2,630,000 common shares for proceeds, before expenses, of $1,256,000. In December, we completed a private placement of 2,555,000 flow-though shares at $0.48 per share for proceeds of $1,226,000. Other issues during the year included the conversion of a $20,000 debenture into 50,000 shares and the exercise of 25,000 stock options at $0.40 per share.

BXL's 1998 year end total debt and working capital was $3,517,000, which is a 13 percent improvement compared to the $4,040,000 outstanding at the end of the previous year. The primary reasons for the decline are increased cash flow from continuing operations, the sale of the gas management contracts and a reduced capital expenditure program.

Effective February 1, 1999 BXL entered into a new loan facility comprised of a $5.0 million revolving term loan bearing interest at the bank's prime rate plus 3/8 of one percent per annum. This arrangement will provide BXL added flexibility in 1999.

NET ASSET VALUES

The calculation of BXL's December 31, 1998 before tax net asset value is shown in the following table. The reserves present values are from a Reserve and Economic Evaluation prepared by Gilbert Laustsen Jung Associates Ltd., Petroleum Consultants of Calgary, Alberta. A summary of this report appears on page 13. The value for BXL's undeveloped land is from an Evaluation of Undeveloped Land prepared by Charter Land Services Ltd., of Calgary, Alberta. BXL's undeveloped lands are described on page 12.

NET ASSET VALUES	BEFORE TAX FUTURE CASH FLOW FROM RESERVES DISCOUNTED AT		
	10%	12%	15%
($ thousands)			
Proved reserves	12,003	11,379	10,553
1/2 probable additional reserves	3,086	2,703	2,247
Undeveloped land	1,775	1,775	1,775
Debt and working capital	(3,517)	(3,517)	(3,517)
Net asset value	13,347	12,340	11,058
Net Asset Value per Share			
Basic (22,474,000 shares)	**$0.59**	**$0.55**	**$0.49**
Fully diluted (25,189,000 shares*)	**$0.57**	**$0.53**	**$0.48**

**Includes convertible debentures and dilutive stock options.*

BUSINESS RISKS

The business of exploring for, developing and producing oil and natural gas reserves is inherently risky. There is substantial risk that the manpower and capital employed do not result in the finding of new reserves in economic quantities. There is risk that the sale of our reserves may be delayed indefinitely due to processing constraints, lack of pipeline capacity or lack of markets. The price BXL receives for its oil and gas reserves fluctuates continuously and for the most part is beyond our control. BXL is also subject to the risks associated with owning oil and gas properties, including environmental risks such as the pollution of air, land and water. In all areas of our business, we compete against entities that may have greater technical and financial resources. BXL's growth is dependent upon external sources of financing which may not be available on acceptable terms.

BXL mitigates these risks by hiring highly qualified personnel, either directly as employees or indirectly when contracting for services. Our philosophy of focusing in a limited number of areas allows us to develop a high level of technical and managerial expertise in each area. To control cost and pace of development, we acquire reasonable interests in each prospect and operate wherever possible. BXL also enters into commodity price and interest rate hedging strategies to add a degree of certainty to cash flow. We diversify our oil and gas market portfolio among various marketers and aggregators and among a variety of contracts with respect to pricing and term. In the field, we adhere to sound operational standards which meet or exceed recognized levels. Finally, all levels of our operations are adequately insured.

YEAR 2000

In early 1999 BXL commenced a Y2K compliance project to assess the potential problems and costs associated with the year 2000 issue. The issue arises because many computer systems and software applications use two digits rather than four to identify a year. In the year 2000, it is anticipated that many systems and programs will not function properly. BXL has identified a number of vulnerable areas, including financial and land systems, geological and geophysical support systems, field production systems, networks and office equipment. In addition, we are also vulnerable to the systems of our business partners, such as oil and gas well operators and pipeline companies.

As a result of our evaluation, which was completed in consultation with hardware and software vendors, BXL acquired a new server and related software and a number of new personal computers. In addition, all of our internal systems have been certified Y2K compliant except for one which will be replaced by mid 1999. The limited number of computer systems used in the field will be tested during the summer of 1999. Due to the nature of the systems in the field, we expect to have any problems solved by the fall. Costs associated with BXL's Y2K project will be expensed or capitalized depending on their nature. These costs are not expected to exceed $50,000.

Although BXL has taken a proactive approach to the year 2000 issue, we cannot be certain that all aspects of the problem will be solved. This is particularly true as it relates to the systems of our business partners. Effects of the year 2000 issue could range from minor errors to a significant system failure, which could disrupt our ability to conduct normal business operations.

BUSINESS PROSPECTS

Nineteen ninety-nine will be a challenging year for growth oriented oil and gas companies. A continuously growing reserve base requires commensurate increases in capital expenditures. In addition to cash flow from operations, a growing capital expenditure program requires external financing, usually in the form of equity. Extremely soft equity markets, caused in large part by slumping oil prices, will make raising new equity at reasonable prices very difficult in 1999.

The execution of BXL's business plan will require financing and we have positioned ourselves accordingly. Year end 1998 debt and working capital is a very manageable 1.7 times 1998 cash flow and we expect production and cash flow to continue growing. Our property portfolio is comprised primarily of high quality production complemented by strategically located undeveloped acreage and seismic. Furthermore, the combination of a focused portfolio and an experienced management team has allowed BXL to become an efficient operator. Our expectation is that BXL's strong operational characteristics will set us apart form many of our peer group. Our challenge in 1999 will be growing BXL to a size that will attract larger financings.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

All of the information in this annual report is the responsibility of management. The accompanying financial statements of BXL Energy Ltd. have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial information elsewhere in the annual report has been reviewed to ensure consistency in all material respects with that in the financial statements.

BXL Energy Ltd. maintains appropriate systems of internal control to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or unauthorized use and financial records provide reliable and accurate information for the preparation of financial statements.

KPMG LLP, an independent firm of Chartered Accountants, has been engaged to examine the financial statements and provide their Auditors' Report. Their report is presented with the financial statements.

The Directors are responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Directors exercise this responsibility through the Audit Committee. This committee, which is comprised of non-management Directors, meets with management and the external auditors to satisfy itself that management responsibilities are properly discharged and to review the financial statements before they are presented to the Directors for approval. The financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

M J Makinson

Michael J. Makinson
Vice President, Finance and Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of BXL Energy Ltd. as at December 31, 1998 and 1997 and the statements of operations and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG LLP.

Chartered Accountants

Calgary, Canada
February 26, 1999

BALANCE SHEETS

December 31,	1998	1997
ASSETS		
Current assets		
Accounts receivable	**$ 1,218,232**	$ 1,180,922
Assets held for disposal (Note 6)	**-**	1
	1,218,232	1,180,923
Property and equipment (Note 2)	**11,314,186**	9,951,944
	$ 12,532,418	$ 11,132,867
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**$ 1,186,873**	$ 1,990,491
Bank loan (Note 3)	**3,118,839**	2,780,071
Convertible debentures (Note 3)	**430,000**	450,000
Deferred income taxes	**817,400**	293,000
Provision for site restoration costs	**183,163**	126,000
	5,736,275	5,639,562
SHAREHOLDERS' EQUITY		
Share capital (Note 4)	**5,682,020**	5,031,437
Retained earnings	**1,114,123**	461,868
	6,796,143	5,493,305
	$ 12,532,418	$ 11,132,867

See accompanying notes

On behalf of the Board of Directors

Donald G. Snyder
Director

Wieland F. Wettstein
Director

STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

Years Ended December 31,	1998	1997
REVENUES		
Oil and gas sales	$ 5,069,248	$ 2,963,465
Royalties	(659,411)	(621,021)
	4,409,837	2,342,444
EXPENSES		
Production	1,390,115	732,125
General and administrative	644,840	437,353
Interest	280,162	152,540
Depletion and depreciation	2,079,000	1,159,000
	4,394,117	2,481,018
EARNINGS (LOSS) BEFORE DISCONTINUED OPERATIONS AND TAXES	15,720	(138,574)
TAXES (NOTE 5)		
Current	3,500	-
Deferred	141,000	34,700
	144,500	34,700
LOSS BEFORE DISCONTINUED OPERATIONS	(128,780)	(173,274)
DISCONTINUED OPERATIONS (NOTE 6)	781,035	62,278
NET EARNINGS (LOSS)	652,255	(110,996)
RETAINED EARNINGS, BEGINNING OF YEAR	461,868	572,864
RETAINED EARNINGS, END OF YEAR	$ 1,114,123	$ 461,868
LOSS BEFORE DISCONTINUED OPERATIONS PER SHARE (NOTE 7)		
Basic	$ (0.01)	$ (0.01)
Fully diluted	$ (0.01)	$ (0.01)
NET EARNINGS (LOSS) PER SHARE (NOTE 7)		
Basic	$ 0.03	$ (0.01)
Fully diluted	$ 0.03	$ (0.01)

See accompanying notes

STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years Ended December 31,	**1998**	1997
CASH PROVIDED BY (USED FOR)		
OPERATIONS		
Loss before discontinued operations	**$ (128,780)**	$ (173,274)
Add charges not affecting cash		
Depletion and depreciation	**2,079,000**	1,159,000
Deferred taxes	**141,000**	34,700
Cash flow before discontinued operations	**2,091,220**	**1,020,426**
Net change in non-cash working capital	**(840,927)**	817,566
	1,250,293	1,837,992
Discontinued operations	**1,194,935**	112,378
	2,445,228	1,950,370
FINANCING		
Issue of common shares	**1,256,400**	1,906,062
Increase in bank loan	**338,768**	1,617,947
Conversion of debenture	**(20,000)**	-
Purchase of common shares	**(20,857)**	-
Share issue costs	**(68,460)**	(44,289)
	1,485,851	**3,479,720**
INVESTING		
Expenditures on property and equipment	**(4,026,028)**	(6,047,544)
Proceeds on sale of property and equipment	**94,949**	617,454
	(3,931,079)	**(5,430,090)**
CHANGE IN CASH	**-**	-
CASH, BEGINNING AND END OF YEAR	**$ -**	$ -
CASH FLOW PER SHARE BEFORE DISCONTINUED OPERATIONS (NOTE 7)		
Basic	**$ 0.10**	$ 0.06
Fully diluted	**$ 0.09**	$ 0.05
CASH FLOW PER SHARE AFTER DISCONTINUED OPERATIONS (NOTE 7)		
Basic	**$ 0.16**	$ 0.06
Fully diluted	**$ 0.14**	$ 0.06

See accompanying notes

Years ended December 31, 1998 and 1997

BXL Energy Ltd. (the "Company") is engaged in the acquisition, exploration, development and production of petroleum and natural gas reserves in Alberta, Canada.

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Petroleum and natural gas operations

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs related to the exploration for and development of petroleum and natural gas reserves are capitalized into a single cost centre. Such costs include those related to lease acquisition, geological and geophysical activities, lease rentals on non-producing properties, drilling of productive and non-productive wells, tangible production equipment, and that portion of general and administrative expenses directly attributable to exploration and development activities. Proceeds received from the disposal of properties are normally deducted from the full cost pool without recognition of a gain or loss. When a significant portion of properties are sold, a gain or loss is recorded and reflected in the statement of operations.

Costs of acquiring undeveloped properties are initially excluded from the full cost pool and are assessed yearly to ascertain whether impairment has occurred. When proved reserves are assigned to the property or the property is considered to be impaired, the cost of the property or the amount of impairment is added to the full cost pool. Depletion of petroleum and natural gas properties and depreciation of production equipment are calculated using the unit-of-production method based upon estimated proved reserves, before royalties, as determined by an independent engineer. For purposes of the calculation, natural gas reserves and production are converted to equivalent volumes of petroleum based upon relative energy content.

The Company annually applies a ceiling test to capitalized costs to ensure that such costs do not exceed the cost of undeveloped properties plus undiscounted future net revenues from production of proved reserves at year end product prices less future general and administrative, interest, site restoration and income tax expenses. Where a ceiling test deficiency occurs and is related to significant acquisitions within the last 24 months, and is not considered a permanent impairment, a write-down of petroleum and natural gas properties is not required.

Future site restoration costs are amortized using the unit-of-production method. These costs are based on year end estimates of the anticipated costs of site restoration.

(b) Joint ventures

Substantially all of the Company's exploration and production activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

(c) Measurement uncertainty

The amounts recorded for depletion and depreciation of property and equipment and the provision for future site restoration costs are based on estimates. The ceiling test calculation is based on estimates of proved reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

(d) Deferred income taxes

The Company follows the deferral method of tax allocation accounting under which the provision for corporate income taxes is based on the earnings reported in the accounts and takes into account the tax effects of timing differences between financial statement income and taxable income.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Flow-through shares

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors. To recognize the foregone tax benefits to the Company, the carrying value of the oil and gas properties acquired and the shares issued are recorded net of the tax benefits renounced to shareholders.

(f) Alberta Royalty Tax Credit

Alberta Royalty Tax Credits of $225,963 (1997 - $73,589) are recorded as a reduction of royalties expensed.

2. PROPERTY AND EQUIPMENT

	1998	1997
Petroleum and natural gas properties	**$ 17,711,257**	$ 13,847,981
Tax benefits renounced	**(2,244,730)**	(1,697,730)
Office equipment	**134,202**	129,436
	15,600,729	12,279,687
Less accumulated depletion and depreciation	**(4,286,543)**	(2,327,743)
	$ 11,314,186	$ 9,951,944

At December 31, 1998 undeveloped property costs of $917,300 (1997 - $702,200) were excluded from the depletion and depreciation calculation. During 1998, the Company capitalized $136,323 (1997 - $103,879) of general and administrative expenses relating to exploration and development activities.

As a result of a ceiling test calculation, which was performed with an effective date of December 31, 1998, it was determined that the net recoverable amount calculated under the full cost accounting guideline exceeded the net book value of the Company's petroleum and natural gas properties. The prices used in the ceiling test calculation at December 31, 1998 were $15.21 (1997 - $24.27) per barrel of crude oil and $2.34 (1997 - $1.75) per thousand cubic feet of natural gas. The ceiling test is a cost recovery test and is not intended to result in an estimate of fair market value.

The provision for future site restoration costs (1998 - $120,200; 1997 - $63,000) is recorded in the statement of operations as a component of depletion and depreciation expense and on the balance sheet as a long-term liability. At December 31, 1998 the estimated future site restoration liability was approximately $794,400 (1997 - $658,400) of which $183,163 (1997 - $126,000) was accrued at year end.

3. LONG TERM DEBT

	1998	1997
Bank loan	**$ 3,118,839**	$ 2,780,071
Convertible debentures	**430,000**	450,000
	$ 3,548,839	$ 3,230,071

Bank loan

At December 31, 1998 the Company had a $4,000,000 loan facility available with a chartered bank comprised of a $3,600,000 revolving reducing production loan, bearing interest at the bank's prime rate plus 1/2 of 1 percent per annum and a $400,000 revolving production loan, bearing interest at the bank's prime rate plus 3/4 of 1 percent per annum. The loans were secured by a $5.0 million demand debenture which provided a first floating charge on all real and personal property of the Company, an assignment of book debts and an undertaking to provide additional fixed charge security if required by the bank. The loans were subject to annual review and had a demand feature, however, repayments were not required as borrowings did not exceed the borrowing base and other loan covenants were complied with.

3. LONG TERM DEBT (CONTINUED)

The Company utilized the facility through direct borrowings from the bank and Bankers' Acceptances.

The December 31, 1998 bank loan balance of $3,118,839 includes Bankers' Acceptances of $1,934,508 at a rate of approximately 7 percent per annum.

Effective February 1, 1999 the Company entered into a revised loan facility with a new bank comprised of a $5.0 million revolving term loan bearing interest at the bank's prime rate plus 3/8 of 1 percent per annum. The loan is secured by a $10.0 million demand debenture which provides a first floating charge over all of the assets of the Company, a general assignment of book debts and a letter of undertaking to provide additional security if required by the bank. The Company can utilize the new facility through direct borrowings from the bank or through Bankers' Acceptances.

Convertible debentures

The unsecured convertible redeemable debentures were issued on December 15, 1996 and bear interest at a rate of 9 percent per annum. The principal is due on December 31, 2000 with interest payable semi-annually. The debentures are convertible at the option of the holder at any time into common shares of the Company at a conversion price of $0.40 per share. The Company can redeem the debentures after June 30, 1998 provided the common shares of the Company have traded for 20 consecutive days at a price equal to or greater than $0.60 per share.

4. SHARE CAPITAL

Authorized Unlimited number of common shares, no par value
Unlimited number of first preferred shares, no par value
Unlimited number of second preferred shares, no par value

Common shares issued

	1998		1997	
	Number of shares	**Amount**	Number of shares	Amount
		$		$
Balance, beginning of year	**19,895,405**	**5,031,437**	16,999,155	3,903,994
Private placements of flow-through shares	**2,555,000**	**1,226,400**	2,505,000	1,690,875
Conversion of debenture	**50,000**	**20,000**	-	-
Exercise of stock options	**25,000**	**10,000**	-	-
Purchased for cancellation	**(51,500)**	**(20,857)**	-	-
Exercise of warrants	**-**	**-**	391,250	215,187
Tax benefits renounced to shareholders	**-**	**(547,000)**	-	(754,130)
Share issue costs, net of deferred income taxes of $30,500 (1997 - $19,800)	**-**	**(37,960)**	-	(24,489)
Balance, end of year	**22,473,905**	**5,682,020**	**19,895,405**	**5,031,437**

4. SHARE CAPITAL (CONTINUED)

Share capital offerings

During December 1998 the Company completed a private placement of 2,555,000 flow-through common shares at $0.48 per share for proceeds of $1,226,400. Qualifying expenditures related to the December 31, 1998 renunciation of income tax deductions of $1,226,400 will be incurred in 1999.

During December 1997 the Company completed two private placements of flow-through common shares, whereby an aggregate 2,505,000 shares were issued at $0.675 per share for proceeds of $1,690,875. The Company renounced income tax deductions of $1,690,875 to investors effective December 31, 1997, of which $370,000 of related qualifying expenditures were incurred in 1997 and $1,320,875 were incurred in 1998.

At December 31, 1996, 472,500 common share purchase warrants exercisable at $0.55 per share were outstanding. In February 1997, 391,250 warrants were exercised for proceeds of $215,187 and the remaining 81,250 warrants expired.

Stock options

At December 31, 1998, options to purchase 1,899,900 common shares at prices ranging from $0.40 to $0.62 per share (average - $0.44 per share) were outstanding. These options expire at various dates between April 2000 and November 2003.

5. TAXES

The provision for taxes differs from the result which would be obtained by applying the combined Canadian federal and provincial tax rate to earnings (loss) before taxes. The principal reasons for this difference are as follows:

	1998	1997
Earnings (loss) before discontinued operations and taxes	**$ 15,720**	$ (138,574)
Corporate tax rate	**44.6%**	44.6%
Computed income tax expense (expected recovery)	**7,000**	(61,800)
Increase (decrease) resulting from:		
Non deductible Crown payments, net	**199,000**	243,900
Resource allowance	**(203,000)**	(168,400)
Non tax based depletion and depreciation	**131,000**	19,400
Large corporations tax	**3,500**	-
Other	**7,000**	1,600
Tax provision	**$ 144,500**	**$ 34,700**

The Company has cumulative income tax deductions of approximately $7,586,000 available to reduce future taxable income. Included in property and equipment is an amount totalling approximately $1.8 million relating to assets with no tax basis.

6. DISCONTINUED OPERATIONS

Effective July 1, 1998, the Company sold its gas management contract line of business for net proceeds of $1,067,701. The results of the gas management contract line of business for the years ended December 31, 1998 and 1997 are as follows:

	1998	1997
Gas management contract fees	$ 127,235	$ 112,378
Gain on sale of gas management contracts	1,067,700	-
	1,194,935	112,378
Deferred income taxes	(413,900)	(50,100)
Discontinued operations	$ 781,035	$ 62,278

7. PER SHARE DATA

Per share amounts are based on the weighted average number of common shares outstanding during the period, which for 1998 was 20,069,964 shares (1997 -17,480,580 shares). The imputed interest rate used for purposes of the fully diluted earnings and cash flow from operations per share calculation is 4 percent (1997 - 4 percent).

8. FINANCIAL INSTRUMENTS

The carrying values of the Company's financial assets and liabilities approximated their fair values at December 31, 1998 and 1997.

9. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Company's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

HISTORICAL SUMMARY

	1998	1997	1996	1995	1994
OPERATING					
PRODUCTION					
Oil and NGLs *(bbls per day)*	**380**	151	143	77	-
Natural gas *(mcf per day)*	**3,591**	2,404	478	97	-
Barrels of oil equivalent *(boe per day)*	**739**	391	191	87	-
AVERAGE SELLING PRICES					
Oil and NGLs *($ per bbl)*	**18.09**	26.14	28.36	22.73	-
Natural gas *($ per mcf)*	**1.95**	1.73	1.69	1.17	-
OPERATING NET BACKS					
Oil and NGLs *($ per bbl)*	**12.46**	16.11	13.34	11.00	-
Natural gas *($ per mcf)*	**0.98**	0.82	1.02	0.95	-
Barrels of oil equivalent *($ per boe)*	**11.19**	11.26	12.52	10.83	-
RESERVES					
Proven					
Oil and NGLs *(mbbls)*	**592**	517	279	224	130
Natural gas *(mmcf)*	**8,236**	8,364	7,920	1,807	1,504
Barrels of oil equivalent *(mboe)*	**1,416**	1,354	1,071	404	280
Proven and probable					
Oil and NGLs *(mbbls)*	**985**	717	566	289	278
Natural gas *(mmcf)*	**14,462**	14,754	12,800	3,577	3,094
Barrels of oil equivalent *(mboe)*	**2,432**	2,193	1,846	646	587
WELLS DRILLED					
Gross	**10**	13	8	3	7
Net	**2.6**	4.5	2.4	1.9	2.1
UNDEVELOPED LANDS *(acres)*					
Gross	**50,800**	55,500	55,800	54,000	7,700
Net	**18,100**	12,300	13,500	8,700	2,400
FINANCIAL *($ thousands except per share amounts)*					
Oil and gas sales	**5,069**	2,963	1,775	684	-
Cash flow from (used by) continuing operations	**2,091**	1,020	402	51	(156)
Per share *(basic)*	**0.10**	0.06	0.03	-	(0.01)
Earnings *(loss)* from continuing operations	**(129)**	(173)	47	(198)	(372)
Per share *(basic)*	**(0.01)**	(0.01)	-	(0.01)	(0.04)
Cash flow after discontinued operations	**3,286**	1,133	1,349	463	240
Per share *(basic)*	**0.16**	0.06	0.09	0.03	0.02
Net earnings *(loss)*	**652**	(111)	571	214	23
Per share *(basic)*	**0.03**	(0.01)	0.04	0.02	-
Capital expenditures	**4,026**	6,047	4,258	2,156	876
Total assets	**12,532**	11,133	7,092	4,272	2,998
Working capital *(deficiency)*	**31**	(810)	8	396	572
Total long term debt	**3,549**	3,230	1,612	1,139	-
Shareholders' equity	**6,796**	5,493	4,477	2,808	2,394
SHARE DATA (1)					
NUMBER *(thousands)*					
Weighted average outstanding	**20,070**	17,481	14,261	13,477	9,934
Outstanding at year end	**22,474**	19,895	16,999	13,599	12,654
Fully diluted at year end	**25,449**	22,760	20,037	16,527	14,157
TRADING PRICE *($ per share)*					
High	**0.60**	0.70	0.70	0.50	-
Low	**0.38**	0.46	0.30	0.26	-
Close	**0.40**	0.55	0.60	0.34	-
SHARES TRADED *(thousands)*	**3,484**	3,451	2,106	352	-

(1) BXL was listed on The Alberta Stock Exchange in May, 1995

CORPORATE INFORMATION

OFFICERS
Bruce G. McIntyre, P.Geol.
President and C.E.O.

Michael J. Makinson, C.A.
Vice President, Finance and C.F.O.

David B. Savage, P.Land
Vice President, Joint Ventures & Land

Robert J. Poole, P.Eng.
Vice President, Production

DIRECTORS
Michael J. Makinson
Vice President, Finance
BXL Energy Ltd.

Bruce G. McIntyre
President
BXL Energy Ltd.

Richard R. Osler *
President
Aequanimitas Ltd.

L. Murray Owens
Businessman

Donald G. Snyder
Businessman

Wieland F. Wettstein
Executive Vice President
Finex Financial Corporation Ltd.

* *Nominee*

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BANKER
The Bank of Nova Scotia

RESERVES ENGINEERS
Gilbert Laustsen Jung Associates Ltd.

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The Alberta Stock Exchange
Trading Symbol: BXL

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ABBREVIATIONS

API	American Petroleum Institute
ARTC	Alberta Royalty Tax Credit
AECO	Alberta Energy Company's natural gas storage facility at Suffield, Alberta
bbls	barrels (one barrel holds 159 litres or 35 Canadian gallons)
bbls per day	barrels per day
boe	barrels of oil equivalent converting 10 mcf of natural gas to one barrel of oil
mbbls	thousand barrels
mboe	thousand barrels of oil equivalent
mmboe	million barrels of oil equivalent
mcf	thousand cubic feet
mcf per day	thousand cubic feet per day
mmcf	million cubic feet
NGLs	natural gas liquids
3-D	three-dimensional (seismic)
2-D	two-dimensional (seismic)
WTI	West Texas Intermediate

DESIGNED AND PRODUCED BY MERLIN CREATIVE GROUP INC.
PRINTED IN CANADA

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